

VZCZCXRO3422
RR RUEH DU RUEHJO RUEHMR
DE RUEHOR #0860/01 1791443
ZNR UUUUU ZZH
R 281443Z JUN 06
FM AMEMBASSY GABORONE
TO RUEHC/SECSTATE WASHDC 3333
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RHMFIUU/HQ USEUCOM VAIHINGEN GE
RHEHNSC/WHITE HOUSE NSC WASHINGTON DC

UNCLAS SECTION 01 OF 02 GABORONE 000860

SIPDIS

SENSITIVE

SIPDIS

AF/S FOR MUNCY

E.O. 12958: N/A

TAGS: [ECON](#) [PHUM](#) [BC](#)

SUBJECT: PRIVATE SECTOR FAULTS GOVERNMENT FOR SLOW GROWTH

¶1. (U) SUMMARY: Despite the Government of Botswana's generally liberal economic policies, the business community perceives burdensome regulations and rising corruption as obstacles to robust growth. Conversations with business representatives outside of Gaborone revealed concerns that slowing growth outside the mining sector stems in part from government failures on these two fronts. Some suggested that the withdrawal of foreign assistance to Botswana as a middle income country led indirectly to higher corruption via experts brought in from other developing countries to replace advisors from donor countries. While our private sector colleagues generally were optimistic about Botswana's long term economic prospects and the pro-market orientation of Botswana's current political leaders, they believed that the GOB could best stimulate growth by getting (further) out of the way. END SUMMARY.

CORRUPTION APPEARS TO BE INCREASING

¶2. (SBU) Even though Transparency International rates Botswana the least corrupt country in Africa, corruption is on the increase according to leaders of the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM). In a June 20 conversation in Francistown, Botswana's second largest city, both Mr. Iqbal Ibrahim, President of BOCCIM, and Mr. Joshi, a manufacturing business owner, described the public tender system as corrupt. Typically the judgment of a single person determines who wins the contract, they said. Although boards evaluate bids, members of those boards often lack the necessary knowledge and experience to effectively assess the tender documents and defer to the opinion of a single technical expert.

¶3. (U) Three members of the Maun Business Council traced rising corruption to the loss of Western technical advisors pursuant to Botswana's designation as a middle income country in 2000. Often those experts, who came from developed economies and found little attraction in the kind of bribes potentially available in Botswana, were replaced by experts from other developing countries. Our contacts claimed that these expats had imported the practice of bribery. It is becoming common, they complained, to need to pay a bribe in order to get permits approved and licenses issued. Participants in a June 6 transportation sector conference hosted by the American Business Council in Botswana complained that demands for bribes by customs officials - averaging about P1000 (roughly \$200) -- have increased as well.

"HOW CAN I STOP YOU TODAY?"

¶4. (U) BOCCIM members believe regulations are being poorly

implemented and see mid-level civil servants as the culprits. Politicians, they asserted, generally share the private sector's vision of a free market path to prosperity and are remarkably accessible. BOCCIM Vice-President Geoff Williams recounted a meeting at which Minister of Lands and Housing Ramadeluka Seretse handed out his phone number and office hours. At the middle level, however, officials are insufficiently trained to regulate and support an increasingly complex economy. Their rigid reading of laws and regulations and reluctance to break bureaucratic log-jams makes doing business in Botswana a slower, costlier proposition than it need be. Kevin Leo-Smith, owner of the up-scale Kwando mobile safari company, quipped that their motto has become, "How can I stop you today?" Leo-Smith has encountered numerous problems with work permits, pilot licenses, and starting new businesses. He has had employees spend up to five years on waivers which had to be renewed quarterly awaiting work and residence permits.

CEDA NOT HELPING THE COMMUNITIES

15. (SBU) Several contacts expressed skepticism at the impact of Botswana's Citizen Entrepreneurial Development Agency (CEDA). Leo-Smith told of an employee who wanted to start his own game-drive business in Chobe, a popular tourist destination. He had a guaranteed contract with the biggest and most established safari lodge in the region, only to be told by CEDA that his plan was not viable and, therefore, would not receive funding. Iqbal Ibrahim, President of BOCCIM, lamented the political influence over the appointment of CEDA's board. He also claimed that board members often work as consultants for CEDA applicants, raking in fees to put together attractive but inaccurate proposals. Although some contacts detected an improvement in CEDA's performance in collecting on its loans, the

GABORONE 00000860 002 OF 002

general consensus was that the GOB would do better to remove obstacles to entrepreneurship rather than spend money to help its citizens overcome them. A local paper reported on June 21 that CEDA had a high rate of bad debts and an accumulated loss of P128.9 million (\$21.1 million).

16. (U) Private sector contacts affirmed that skilled labor remains scarce in Botswana and said government initiatives to address that gap frequently miss the mark. Training for workers in the hospitality industry, for example, focuses too much on booking flights and accommodation, which typically takes place in the tourists' country of origin rather than destination. Rather, he argued, they should emphasize operation and management of lodges or safari companies. The Brigades, a network of vocational training centers, provides instruction in a limited range of skills - mechanical engineering, brick-laying, welding, etc. - but produces low-productivity workers who lack an understanding of the business context in which their skills can be marketable.

LAND ACCESS IS A PROBLEM

17. (SBU) Access to serviced land is becoming a significant impediment to domestic business growth and to foreign investment. Francistown Mayor Buti Billy, along with business leaders, attributed lack of manufacturing growth and low foreign investment in Botswana to the acute shortage of serviced land. BOCCIM Vice-President Geoff Williams observed that local land boards, which allocate land, often consist of traditional leaders with little economic knowledge or business background. They fail to ensure that those who are allocated land have the capacity to pursue the development proposed for that property. The boards also fail to enforce the time-frames in which persons allocated land are supposed to make improvements according to their business plans.

VP KHAMA INVOKES POSITIVE THINKING

¶18. (U) Vice President Seretse Khama Ian Khama earned the praise of our interlocutors as a no-nonsense man who will whip an inefficient bureaucracy into shape. Mr. Williams and Mr. Ibrahim described Khama as responsive to the needs of citizens and intolerant of laxity in the civil service. They believed that he had brought into the Cabinet other military veterans - Minister of Lands and Housing Seretse and Minister of Environment, Wildlife and Tourism Mokaila - who have brought a disciplined, pro-market approach to their ministries. Significantly, he was cited as the man to go to when the bureaucracy was being troublesome or unresponsive.

COMMENT

¶19. (SBU) Overall, our interlocutors were optimistic on Botswana's long-term economic prospects. Several were expats who had lived elsewhere in Africa but settled permanently in Botswana in part because of its relatively open economy. They appreciated that Botswana's performance on corruption and regulation far exceeds most African countries. Nonetheless, they see room for continued improvement and even detected the emergence of negative trends, including rising corruption and more burdensome regulatory requirements. Many set their hopes on the likely next President, Ian Khama, to reverse these trends by reforming the bureaucracy. While he might fulfill those expectations, it is also possible that Khama will allow the inefficiencies to persist and consolidate his highly-personal political following on the strength of his reputation as the one person who can move the bureaucracy - one personal, loyalty-building appeal at a time.

¶10. (SBU) The observation that withdrawal of foreign assistance to Botswana following its designation as a middle income country indirectly boosted corruption highlights one of the dangers of failing to sustain support for governments that make wise policy choices. U.S. interests are better served by continuing to support developing countries that are making political and economic progress than by withholding support until these countries have slid back into less developed status thanks to encroaching ills such as corruption and poor implementation of regulations.

AR0IAN